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Discussion paper

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1. Since the 1960s the small- and medium-scale enterprise sector has been the subject of studies, research and finding new and more effective ways for the promotion and accelerated growth of the individual enterprise. Activities of this kind have taken place on a scientific basis through the identification of programmes, policies and measures to create favourable conditions, frameworks or environments conducive to the growth of the sector.

2. Initially, there was North-South co-operation through multilateral or bilateral agencies through technical co-operation agreements between industrialized and developing countries. Many development agencies for small- and medium-scale enterprises have been created through technical co-operation projects as well as financial assistance agreements through North-South co-operation at government level. Contributions of the non-governmental sector in the form of foundations, special organizations and agencies should not be neglected.

3. A large number of agencies, development institutions, research centres, extension service and training centres have been created and have accumulated a wealth of experience within their sectors and countries. Moreover, the banking system and development and commercial banks have gained experience in handling their small- and medium-scale clients. A broad based exchange of experience has not yet taken place, and accumulated experience offers a tremendous potential for fruitful co-operation country-wide, regional and international. North-South co-operation should be backed up with the South-South dialogue which needs to be urgently encouraged in order to utilize the knowledge and potential available in the developing countries.

4. The different forms of possible co-operation offered could range from enterprise-to-enterprise co-operation at national and international levels to a dialogue of institutions and associations within a national, regional or international framework.

5. Small- and medium-scale enterprise development is a multi-facetted problem and requires integrated solutions. In addition, the socio-economic environment in which development takes place plays an important role. No standard or universally valid solution can be offered; instead, each solution requires evaluation of the situation and analysis of the requirements to determine the right decision. Through intensive dialogue among institutions, their knowledge and experience will become available to similar organs and will stimulate their activities.

6. Multilateral agencies should play an important role by facilitating networking, information-sharing and learning among countries and agencies. Such dialogues should take place both at government as well as non-governmental level. Existing networks should be intensified and strengthened and new ones developed in different fields.

Training

7. At the national level existing centres active in training should closely co-ordinate their activities with focus on the specific requirements of the small- and medium-scale enterprise sector. This should bring together institutes for training in extension and consultancy services, entrepreneurship development and specialized training institutes. Vocational training schools as well as universities should consider training requirements of the small- and medium-scale enterprise sector in their programmes. This would lead to a balanced offer of training opportunities and increased

awareness of small- and medium-scale enterprises as potential employment opportunity and awake entrepreneurial spirit among the trainees. Exchange of resource persons and teaching staff should also be encouraged.

8. Increased co-operation among training centres in different countries having similar problems and similar economic development levels will lead to sharing of experience, approaches and methodologies and through this to an improvement in their training performance.

9. Inter-country, regional as well as international co-operation among training centres should increasingly be encouraged. Regional organizations as well as multilateral and bilateral agencies should sponsor meetings, workshops and exchange of experts to set examples for practical South-South co-operation at all levels.

Transfer and development of technology

10. Centres for the development and transfer of technology have been established mainly with international assistance. Their achievements in the adaptation of technologies developed in industrialized countries for utilization in developing countries have been remarkable. A transfer of technology in the North-South direction is taking place. So far there has been a lack of South-South co-operation among these centres to the extent that certain technologies and techniques have been invented more or less simultaneously by a number of centres in different countries. Close co-operation between those centres and an exchange of research results and experience will save funds and manpower and produce faster results.

11. In addition to regional and international co-operation at the institutional and centre levels, co-operation at the enterprise-to-enterprise level between small- and medium-scale enterprises in developing and developed countries should be mentioned. Encouraging results have been achieved by some programmes as, for instance, the sister industry programme started between Sweden and the United Republic of Tanzania or the enterprise-to-enterprise co-operation programme run by the United Nations Industrial Development Organization (UNIDO) between a few industrialized countries on the one side and a number of developing countries on the other. Further co-operation in these activities should be sponsored.

Financing of small- and medium-scale enterprises

12. Co-operation between financing and non-financing institutions on a national, regional and international basis is one of the indispensible prerequisites for sound growth of the small- and medium-scale enterprise sector.

13. At the national level, co-operation between development institutes in preparation for loan appraisal documents prior to submitting a loan application is a well established practice in many countries. The loan is processed by the banking institution and after it is granted, follow-up lies again in the hands of the development institute.

14. Regional and international finance institutions as well as bilateral funding agencies offer lines of credit to the small- and medium-scale enterprise sector. The loan approval procedure for a foreign exchange loan to the individual enterprise is channelled from the entrepreneur through a local

institute to the regional or international source of finance. Loan appraisal procedures of this kind have given rise to long delays in obtaining funds. The increased demand for financing and the specific conditions under which the small- and medium-scale enterprise sector is operating have not yet been reflected sufficiently by those finance institutions. Special programmes or special windows should be established through the regional and international development banking system, taking into account practical and realistic requirements of the small- and medium-scale borrower.

Marketing

15. Subcontracting is considered as a tool to provide additional market outlets for parts and components produced by small- and medium-scale enterprises. Subcontracting requires an equal quality standard of the product and is in general only applicable to those units which have accumulated sufficient experience and reached an advanced stage with respect to quality, price, delivery times etc. The first step of subcontracting is at the national level. When the small- and medium-scale enterprise units have reached that level and developed satisfactory subcontracting relations on a local basis, the next step towards subcontracting partners in export markets should be encouraged.

16. National subcontracting exchanges should broaden their activities and identify subcontracting partners abroad. Moreover, regional subcontracting exchanges have proven successful, e.g. covering some Middle-East countries in identifying production units as well as customers for their products on a regional basis. More such regional subcontracting exchanges should be set up. Thought should be given to ways and means for establishing an international subcontracting exchange under the guidance of multilateral agencies.

Final consideration

17. Co-operation in the North-South and South-South context needs to be strengthened. The Consultation may wish to examine the following proposals with a view to reach conclusions and formulate recommendations for increased international co-operation in the field of small- and medium-scale enterprise development.

(a) Multilateral aid

- Small- and medium-scale enterprises are effective agents for the achievement of national economic objectives as exemplified in integrated rural development programmes, river and lake basins development schemes and employment generation. They are the main instruments for enhancing private sector initiatives for a more efficient utilization of national resources and for alleviating poverty in the rural, peri-urban and urban areas. Substantial external resources are needed to sharpen development policy instruments, strengthen institutions, and facilitate the flow of finance, technology and know-how. Donors might, therefore, wish to assign a higher priority to the sector and possibly establish a quantitative target for the sector.

- In view of the variety of programmes and proliferation of projects, it would seem desirable to create co-ordinating mechanisms to assure full impact and benefit from international aid at two levels: (i) at the country level consisting of donor representatives - UNIDO, International

Labour Organisation (ILO), Food and Agriculture Organization of the United Nations (FAO) - under the leadership of the United Nations Development Programme (UNDP) regional co-ordinator; and (ii) at the global level wherein eminent experts in their personal capacities would interact with UNIDO, ILO and FAO, and advise on policies and programmes of aid flows to small- and medium-scale enterprises.

- Industrial co-operatives as instruments for mobilizing community resources and as breeding grounds for entrepreneurship development would constitute an important area of co-operation between countries of centrally-planned economies and developing countries.

(b) International financial co-operation

- Creation of special windows in international and regional financial institutions for assured and predictable loans to small- and medium-scale enterprises at concessionary terms, particularly to the least developed countries, in view of their special needs;

- Establishment of a seed revolving fund for venture capital and joint ventures involving the international financial institutions, banking institutions in the developed and developing countries and transnational corporations;

- Increased provision of financial and technical co-operation to development, commercial and rural banking systems in the developing countries to enable them provide loans and services to small- and medium-scale enterprises efficiently, profitably and on a timely basis;

- Creation of a Task Force possibly under the leadership of the International Bank for Reconstruction and Development (IBRD) and comprising representatives of UNDP, UNIDO, ILO and FAO to advise on policies and programmes in light of the variety and changing needs of small- and medium-scale enterprises for financing and technical co-operation.

(c) International technological co-operation

- Supporting and expanding research and development efforts in the developing countries in priority sectors through twining arrangements, enterprise-to-enterprise co-operation and access to information on technology alternatives;

- Promotion of research aimed at scaling down technologies to suit market sizes in developing countries and funding of pilot projects to demonstrate viability and profitability;

- Assistance in the development of consulting engineering services through either joint ventures and/or subcontracting;

- Creation of a data-base in the form of directories of sources of technology, equipment supply and prices as well as checklists of contractual arrangements in respect of spare parts production, repair and maintenance, royalty payments and training.

(d) South-South co-operation

- Arising out of the varying levels of industrialization, the scope of South-South co-operation is vast. Exchange of experiences would be facilitated with the creation of information networks and institutional interactions on a sustained and structured basis.

- Directories of sources of technology and equipment supply should be compiled and published; so also consulting engineering services.

- Joint ventures should be promoted and implemented based preferably on bilateral agreements governing production and trade arrangements.

- Access to markets should be encouraged through promotional measures and adherence to quality and standardization norms.

- Training of managers, entrepreneurs, technologists and technicians in centres of excellence as part of a strategy of demonstrating the potentials and benefits of South-South co-operation.

(e) Technical co-operation

- That the focus and thrust of technical co-operation should primarily be the sensitization of policies, instruments and mechanisms at the highest level of national decision-making has emerged from the analysis. Assistance is needed in the creation of national small- and medium-scale enterprise development councils to sensitize and mobilize private sector initiative to achieve national economic objectives to redress regional imbalances, alleviate poverty, create employment and raise standards of living in the rural areas through such programmes as integrated rural development, resettlements and river and lake basins development schemes.

- Entrepreneurship is a key ingredient for creating the agents of change and economic achievements. Assistance in the identification of projects, entrepreneurs and training of managers, technologists and technicians would play a critical role in laying the entrepreneurial base for growth. Such assistance should be aimed at ensuring an assured progression of micro-enterprises to leaders of modern industrial operations.

- Assistance may furthermore be needed to create an economic environment conducive to generating private sector response to economic goals. Such assistance should aim at a better integration of the small- and medium-scale enterprise sector in national plans and policies and harmonization of incentive measures with macro-economic policies.

- On the supply there is an evident need for closer interaction between financial and technical co-operation. The latter could contribute significantly to strengthening and streamlining the operations of lending institutions to better respond to the needs of the small- and medium-scale enterprises and the former to create suitably tailored loan programmes to the sector. Assistance is furthermore required to expand banking institutions in the rural and peri-urban areas and for these institutions to adapt their loan appraisal and approval procedures to the specific potentials and needs of small- and medium-scale enterprises.

- The functions of national institutions would need to undergo changes in order to enable them to cope with the challenges of the future, particulary the prescription that they may be required to operate on business lines. Profitability would be the basic criteria of performance. They would, therefore, need to strengthen their project preparation functions.

- Consulting engineering services would play a critical role in technology transfer, project preparation, appraisal and implementation, and in packaging investment proposals. They could greatly assist the national institutions as an integral part of their operations or as offshoots. One of the main thrusts of technical co-operation may very well be assistance to be rendered to the developing countries in their setting-up and initial operations.

- Specific priority areas of technical co-operation are: training, research and development, technology centres, standardization and quality control, enterprise-to-enterprise co-operation, subcontracting exchanges and trade fairs.

- Technical co-operation should also serve as a catalyst for institution-building at the national level and for fostering increasing levels of North-South and South-Soth co-operation, as well as to formulate a beneficial interaction within the United Nations system as well as donor agencies in programmes and projects aimed at the development of small- and medium-scale enterprises.

- A panel of experts is proposed to be set up to monitor and advise on the implementation of the recommendations of the Consultation. The panel should be composed of representatives of selected donor countries, IBRD, regional financial institutions and UNIDO, FAO and ILO so as to foster the implementation of a coherent programme of action aimed at the development of small- and medium-scale enterprises.